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SUBJECT: CULTURALLY SENSITIVE RICE SECTOR A KEY CAMPAIGN ISSUE
IN SRI LANKA

1. Summary. Rice is Sri Lanka's most important agricultural crop in terms of area cultivated, production and rural employment (approximately 1.8 million farmer families depend on rice for their livelihood). Rice production contributes 4 percent of the country's GDP and around 850,000 hectares are under cultivation. Sri Lanka produces around 2.7 million metric tons of unmilled rice("paddy") which accounts for about 90 percent of domestic requirements. Successive governments have intervened in paddy marketing in order to attempt to provide a fair price for the farmers as well as control retail rice prices. The rice farming sector has become a hot button campaign issue yet again, with both candidates for the November 17 Presidential election clamoring for the rural vote and attempting to wrap themselves in the rhetoric of rice's cultural value to Sri Lanka. End Summary

2. Although rice production has increased significantly over the years, paddy farmers' incomes continue to stagnate. There are a variety of reasons for this stagnation:

- Over 70 percent of paddy farmers cultivate less than one hectare, which does not allow for economies of scale;
- Farmers obtain inputs on credit from traders who are repaid from the paddy harvest, often at preset prices that represent an exorbitant interest rate;
- Lack of storage and transport facilities;
- Limited investment capital;
- High cost of labor;
- Soil deficiencies due to excessive use of fertilizers.

2. The Paddy Marketing Board (PMB) was established by an act of Parliament in 1972. The PMB was vested with monopoly powers for purchase and sale of paddy. This act allowed the PMB, or their agents(the Cooperatives and the Food Commissioners Department), to have sole authority with respect to collecting paddy from farmers and storing, processing and providing milled rice to the Food Commissioners Department to distribute to consumers through the Cooperatives. Unofficial channels involving traders, however, were also in operation during this period. The role of the government in paddy/rice marketing was changed with the introduction of economic liberalization policies in 1977, which allowed the private sector to market rice based on competition.

3. As a result of intense competition within the private sector, the government's role in paddy and rice marketing fell dramatically. Although the PMB is technically still in existence, it has no workers and does not function. The Government owned Cooperative Wholesale Establishment (CWE) entered paddy/rice marketing activities in 1996. More recently the Treasury has released funds to the Agrarian Services Department for paddy purchases in particular districts. Rice has been artificially stimulated in Sri Lanka for decades. The guaranteed price scheme (GPS) was introduced in 1948 in order to assure a fair price and ready market for local producers of agricultural commodities, stimulate production of food crops consumed in the country and to replace/reduce food imports by protecting locally produced food.

Paddy in the Campaign

4. Both leading candidates for President are attempting to wrap themselves in the culturally-sensitive rice issue, as a means of attracting the rural vote (NOTE: the rural vote is considered as a potentially deciding factor in this election). The candidates are pledging to increase farm gate prices by around 35-40 percent. Prime Minister Mahinda Rajapakse, the Sri Lanka Freedom Party (SLFP) presidential candidate, proposes to resurrect the PMB and focus heavily on domestic agriculture sector to achieve this goal. Ranil Wickremasinghe, the presidential candidate of the opposition United National Party (UNP) takes a more market-oriented approach, and proposes the establishment of a produce marketing agency to assist farmers in marketing their produce both locally and internationally.

5. Comment: The proposed revival of the PMB has been submitted for Cabinet approval. Under that plan, the PMB would function as a marketing authority for government paddy purchases. However, specific functions and operational details have not yet been answered. The PMB would need storage facilities for the procured paddy, which would require significant capital infusion. PMB-owned facilities were disposed of at the time the

organization ceased its marketing activities. The approach to paddy marketing will most likely be decided by the outcome of the November 17 presidential election. If the Prime Minister wins, the revival of the PMB is expected to proceed as planned, although its long-term sustainability and efficiency are uncertain. The more private sector-oriented United National Party (UNP) is likely to focus on a more private sector approach to paddy purchasing with government assistance.

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